



BAC 7710-FW-P

POSTAL REGULATORY COMMISSION

39 CFR part 3050

[Docket No. RM2019-6; Order No. 5133]

Periodic Reporting

AGENCY: Postal Regulatory Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commission is acknowledging a recent filing requesting the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports (Proposal One). This document informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* August 20, 2019.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: David A. Trissell, General Counsel, at 202-789-6820.

SUPPLEMENTARY INFORMATION:

Table of Contents

- I. Introduction
- II. Proposal One
- III. Notice and Comment

IV. Ordering Paragraphs

I. Introduction

On June 21, 2019, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal One.

II. Proposal One

Background. Proposal One relates to the methodology used to calculate attributable Special Purpose Route (SPR) city carrier costs. Carriers on SPRs “deliver packages to addresses across a designated geographic area and collect mail from specified collection points.” Petition, Proposal One at 1. The SPR carriers “perform some or all of a number of different activities: organize their mail in the office, load their vehicles, drive to the first delivery or collection spot, drive between delivery and collection spots, effect delivery or collection while out of the office, return to the office from the last delivery or collection spot, and unload their vehicles. These activities take place within three operations[:]
regular Monday through Saturday delivery, Sunday delivery, and collection.” *Id.* The specific activities performed by each carrier depend on the operation. *Id.*

The current methodology used to attribute the SPR city carrier costs is based on a study that was presented by the Postal Service in Docket No. R97-1.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), June 21, 2019 (Petition).

Id. The Postal Service contends that the Docket No. R97-1 study should be updated because there have been “substantial changes” in the activities performed by SPR carriers. *Id.*

Specifically, the Postal Service states that “[a]s package volume has grown, the focus on SPR activities has shifted toward delivery and away from collection.” *Id.* at 1-2. The Postal Service comments that the “development of Sunday package delivery has also shifted SPR activities toward delivery.” *Id.* at 2. The Postal Service contends that these changes provide “motivation for an update and refinement” of the Docket No. R97-1 study. *Id.* at 1.

Proposal. The Postal Service’s proposal seeks to revise the methodology used to attribute SPR city carrier costs by replacing the study currently used by the Postal Service’s model with a proposed study that the Postal Service believes more accurately reflects SPR carrier activities and cost drivers.²

The Postal Service’s proposed study estimates separate variability models for regular delivery, Sunday delivery, and collection. Petition, Proposal One at 3. It uses the total hours involved in each activity as the dependent variables in these regressions to ensure that “any connection [of these associated times] to volume [is] incorporated into the estimated variability.” *Id.*

The explanatory variables in the proposed models include the cost drivers and characteristic variables that control for non-volume variations in hours. *Id.* The Postal Service states that a “number of different functional forms are

² A New Study of Special Purpose Route Carrier Costs, Professor Michael D. Bradley, June, 21, 2019 (Proposed Study).

estimated, and a variety of different econometric techniques are investigated.”

Id. at 3-4.

The proposed study calculates separate cost pools for regular delivery, Sunday delivery, and collection. *Id.* at 4. The Postal Service states that “[e]ach cost pool is based upon the hours required to complete the included activities and the wages associated with the types of carrier accruing the hours”. *Id.*

Rationale and impact. The Postal Service states that the “objective of this proposal is to update and improve the methodology for calculating attributable Special Purpose Route (SPR) city carrier costs.” *Id.* at 1. The Postal Service contends that Proposal One would improve the analysis of SPR costs “in a number of ways.” *Id.* at 3.

First, the Postal Service avers that the proposed study’s structure “reflects current operational practice and management.” *Id.* Second, the Postal Service states that it “makes use of ongoing operational databases” to gather data from every SPR location, “greatly expanding the scope of the analysis.” *Id.* Third, the Postal Service claims that the proposed study “explicitly accounts for the December peak in package volumes in determining product costs and allows for other seasonal variation throughout the year.” *Id.* Fourth, the Postal Service states that the proposed study “incorporates the differences in wages for different types of SPR carriers when forming cost pools.” *Id.* Fifth, the Postal Service asserts that the proposed study “explicitly models Sunday package delivery costs based upon the actual packages delivered.” *Id.*

In terms of impact, the Postal Service's proposed study produces a higher overall variability than the existing study. *Id.* at 4. The Postal Service calculates the FY 2018 variability for SPRs as 56.3 percent. *Id.* Under the proposed study, the overall variability would rise to 61.4 percent. *Id.* The Postal Service explains that this increase is a result of a "higher regular delivery variability offsetting a slightly lower collection variability and the estimation of an actual Sunday variability in place of the assumption of 100 percent variability." *Id.*

The Postal Service has observed two major cost shifts under the proposed study: (1) a shift from letter and flat shaped mail to packages; and (2) a shift from market dominant products to competitive products. *Id.* at 5. The Postal Service asserts that these effects result from "the updated data that underlie the new study capture the shift in SPR activities from collection to delivery that has taken place as package volumes have increased." *Id.* The Postal Service notes that "SPR delivery is a package-related cost, whereas collection includes both letters and flats." *Id.* The Postal Service concludes that "[t]he activity shift toward delivery also underlies the cost shift from market dominant to competitive products." *Id.*

III. Notice and Comment

The Commission establishes Docket No. RM2019-6 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's Web site at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal One no later than August 20, 2019. Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as

an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. Ordering Paragraphs

It is ordered:

1. The Commission establishes Docket No. RM2019-6 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), filed June 21, 2019.

2. Comments by interested persons in this proceeding are due no later than August 20, 2019.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Lawrence Fenster to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this Order in the **Federal Register**.

By the Commission.

Stacy L. Ruble,

Secretary.